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Cygnus

CORPORATION LIMITED

1965 Annual Report



DIRECTORS

ROBERT A. BROWN, JR.

*President and Managing Director
Home Oil Company Limited*

ROBERT W. CAMPBELL

*Executive Vice President and General Manager
Home Oil Company Limited*

WILLIAM F. JAMES, Ph.D.

Partner James, Buffam & Cooper

BENTON MACKID

Partner Reed, Shaw & McNaught

HARRY I. PRICE

*Chairman of the Board
Harry Price Insurance Ltd.*

ARTHUR M. SHOULTS

President James Lovick Limited

J. ROSS TOLMIE, Q.C.

*Partner
Herridge, Tolmie, Gray, Coyne & Blair*

The Annual Meeting of Shareholders will be held
at 2:30 p.m., April 22nd, 1966 at the head office
of the Company, 304 Sixth Avenue South West
Calgary, Alberta

OFFICERS

R. A. BROWN, JR.	<i>President and Chairman of the Board</i>
R. W. CAMPBELL	<i>Executive Vice-President</i>
R. R. SMITH	<i>Vice-President and General Manager</i>
I. M. DRUM	<i>Vice-President, Engineering and Research</i>
R. B. COLEMAN	<i>Secretary</i>
B. B. ROMBOUGH	<i>Treasurer</i>
F. G. MITCHELL	<i>Assistant Secretary</i>
G. W. BENNETT	<i>Assistant Treasurer</i>

AUDITORS

Riddell, Stead, Graham & Hutchison

SOLICITORS

Macleod, Dixon, Burns, Love, Leitch and Lomas

BANKERS

Canadian Imperial Bank of Commerce

REGISTRAR and TRANSFER AGENT

Crown Trust Company

LISTINGS

PREFERRED SHARES

Montreal Stock Exchange

Toronto Stock Exchange

CLASS A AND CLASS B SHARES

Montreal Stock Exchange

Toronto Stock Exchange

Calgary Stock Exchange

Vancouver Stock Exchange

To the shareholders

Cygnus Corporation completed its first full year of operations in 1965 and is able to report that the year was a successful one both in terms of financial results and new activities.

Net income for the year amounted to \$317,000. The Company's gross income consisted of dividends totalling \$490,000 from Home Oil Company Limited and interest of \$25,000 earned on short term investments.

During 1965 Home Oil paid dividends on its Class A and Class B shares totalling \$0.50 per share, \$0.15 higher than in the previous year. However, in 1964 the Company realized \$222,000 from the sale of rights that had been received from Home Oil. As a result income in 1964 was higher than in 1965.

The principal asset of Cygnus Corporation continues to be its shares of Home Oil. As mentioned in last year's annual report additional shares were purchased early in 1965 at a cost of \$1,671,626. At December 31, 1965 the Company held a total of 27,565 Class A shares and 951,700 Class B shares of Home Oil having a market value of \$18,221,583.

Home Oil enjoyed the most profitable year in its history in 1965. The company produced more crude oil, processed more natural gas and moved more oil through its pipelines than ever before. Gross income, cash flow and net income all exceeded previous levels.

Home Oil's net income per share amounted to \$1.19 compared with \$1.10 in the previous year. These figures are after providing for deferred income taxes amounting to \$0.51 per share in 1965 and \$0.39 per share in 1964.

In January of 1966 Home Oil negotiated the sale of \$20 million (U.S.) 5½ % Secured Bonds. In the previous month United Oils, Limited, a 95% owned subsidiary of Home Oil had completed the sale of \$5 million (U.S.) of 5½ % Secured Bonds. The proceeds of these issues, after retiring certain bank indebtedness, have provided the companies with more than \$15 million of working capital.

Production of crude oil and natural gas liquids averaged 12,809 barrels per day, an increase of 10 per cent over the 1964 level. Natural gas sales were 61.8 million cubic feet per day.

Home Oil is continuing to invest substantial amounts of money in exploration for oil and gas. Its most active programs are in northwestern Alberta near the Rainbow Lake area, in the Chisholm-Akuinu area south of the Mitsue field, and in the United Kingdom. A drilling location has been selected on the company's North Sea acreage, and negotiations are in progress for an offshore drilling platform.

During 1965 Home Oil continued to diversify its activities. In line with its policy of seeking attractive investments in the energy field it purchased 508,500 shares of Calgary Power Ltd., at a total cost of \$13 million. This is believed to be the largest single shareholding of Calgary Power, and represents approximately ten per cent of the total outstanding. The demand for electric energy is expected to grow in Alberta at a rate of more than nine per cent per year.

In April Thio-Pet Chemicals Ltd., a wholly-owned subsidiary of Cygnus Corporation, completed the construction of its petrochemical plant 25 miles east of Edmonton. The design capacity is six million pounds of carbon disulphide per year. At this level of operations more than five million pounds of hydrogen sulphide are co-produced with the carbon disulphide.

The total cost of the Thio-Pet plant had reached \$1,420,000 at the end of 1965, substantially higher than initially estimated. This higher cost resulted primarily from increases in the cost of equipment and labour, and also from the decision to install hydrogen sulphide purification facilities at the plant.

Continuous operation of the Thio-Pet plant started in April, and later that month specification hydrogen sulphide and carbon disulphide were available for sale. In December both the carbon disulphide and hydrogen sulphide units were given performance tests at rates in excess of design capacity.

The hydrogen sulphide purification facilities were on stream in December. These facilities raise the purity of the plant's hydrogen sulphide production to over 99.8% rather than the 95% purity initially produced. This higher purity enables the company to compete for expanded markets.

Thio-Pet experienced a loss of \$102,000 during 1965. This was to be expected during the initial operating year of a plant of this type. For the year 1966 it is anticipated that a net profit will be obtained.

Toward the end of the year Cygnus Corporation purchased Empire Management Limited, a private company. Empire's main asset was a contract providing for the management of First Oil and Gas Fund Ltd., a mutual investment fund specializing in securities of companies in the oil and gas industries. Empire was purchased for a total consideration of \$276,000. Payment was made by means of 20,000 Class A shares of Cygnus and \$191,000 cash.

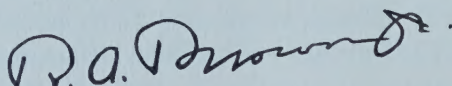
Upon the recommendation of Empire, the common shareholders of First Oil and Gas Fund Ltd., voted to expand the objectives of the Fund, and to change its name to Natural

Resources Growth Fund Ltd. The Fund is now empowered to make investments in securities of practically any natural resource company and should have a much broader appeal to the public.

The Directors wish to record their appreciation to the personnel whose efforts and co-operation are contributing so greatly to the Company's success in these formative years. As a management incentive, the Board has recently adopted an Incentive Share Option Plan, covering 150,000 Class B shares of the Company. Under the Plan which has been approved by the Toronto Stock Exchange, options will only be granted at the prevailing market prices at the time of granting and will only be exercisable by the employees after having been earned over a period of years. No options have as yet been granted under the Plan.

The Directors are confident that 1966 will result in another year of expansion into new activities. However, because the Company's net income is still determined largely by dividends from Home Oil, rather than its own operations, it is not the intention at this time to issue regular quarterly reports.

On behalf of the Board of Directors,

A handwritten signature in dark ink, appearing to read "R. A. Donohoe". The signature is fluid and cursive, with a large initial "R" and a long, sweeping underline.

Chairman of the Board and President

Cygnus CORPORATION LIMITED

STATEMENT OF INCOME

For the Year Ended December 31, 1965

	Year Ended December 31, 1965	Period from March 26, 1964 to December 31, 1964
INCOME		
Dividend income	\$ 489,633	\$ 315,000
Interest income	25,491	41,127
	<u>515,124</u>	<u>356,127</u>
EXPENSE		
General and administrative expense	58,578	32,704
Amortization of share issue and organization expense (Note 3)	38,940	19,470
	<u>97,518</u>	<u>52,174</u>
Net income before subsidiary companies' loss (net) and special credit	417,606	303,953
SUBSIDIARY COMPANIES' LOSS (NET) (Note 2)	(100,601)	-
NET INCOME	<u>317,005</u>	<u>303,953</u>
SPECIAL CREDIT		
Gain on sale of securities	-	222,707
NET INCOME AND SPECIAL CREDIT	<u>\$ 317,005</u>	<u>\$ 526,660</u>

STATEMENT OF EARNED SURPLUS

For the Year ended December 31, 1965

BALANCE as at January 1, 1965	\$ 463,658
Add: Net income	317,005
	<u>780,663</u>
Deduct: Dividends	
Preferred shares	\$ 137,505
Class A shares	86,854
	<u>224,359</u>
BALANCE as at December 31, 1965	<u>\$ 556,304</u>

The accompanying notes to financial statements are an integral part of the above statements.

Cygnus CORPORATION LIMITED

B A L A N C E

As at Dec

ASSETS

	<u>1965</u>	<u>1964</u>
CURRENT ASSETS		
Cash and time deposits	\$ 25,478	\$ 2,685,359
Dividend receivable	318,261	157,500
	<u>343,739</u>	<u>2,842,859</u>
 INVESTMENT IN HOME OIL COMPANY LIMITED		
at cost (Note 1)	<u>14,157,287</u>	<u>12,485,662</u>
 INVESTMENT IN AND ADVANCES TO WHOLLY-OWNED SUBSIDIARY COMPANIES (Note 2)		
	<u>1,556,158</u>	<u>508,411</u>
 OTHER ASSETS (Note 3)		
Commission and expense on issuance of preferred shares	99,762	128,265
Incorporation and organization expense	36,529	46,965
	<u>136,291</u>	<u>175,230</u>
 Approved on behalf of the Board:		
<i>R. A. Brown</i> Director		
<i>Robert W. Campbell</i> Director		
	<u><u>\$16,193,475</u></u>	<u><u>\$16,012,162</u></u>

The accompanying notes to financial statements

B A L A N C E S H E E T

December 31, 1965

LIABILITIES

	1965	1964
CURRENT LIABILITIES		
Accounts payable	\$ 26,378	\$ 22,711
Dividend payable	34,376	34,376
	<u>60,754</u>	<u>57,087</u>

CAPITAL STOCK AND SURPLUS

Capital stock (Note 4)

Preferred shares

Authorized

375,000 Preferred shares of the par
value of \$20 each, issuable
in series

Issued and fully paid

125,000 5½ % cumulative redeemable
convertible preferred
shares

2,500,000	2,500,000
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Class A and Class B shares

Authorized

4,000,000 Class A shares of no
par value

4,000,000 Class B shares of no
par value

Issued and fully paid

888,789 Class A shares
(1964 - 868,789)

3,332,852	3,247,852
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2,606,374 Class B shares

9,743,565	9,743,565
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<u>13,076,417</u>	<u>12,991,417</u>
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Earned surplus - per statement
attached

<u>556,304</u>	<u>463,658</u>
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<u><u>\$16,193,475</u></u>	<u><u>\$16,012,162</u></u>
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is an integral part of the above balance sheet.



NOTES TO FINANCIAL STATEMENTS

As at December 31, 1965

Note 1 INVESTMENT IN HOME OIL COMPANY LIMITED

As at December 31, 1965 the company held 27,565 Class A and 951,700 Class B shares of Home Oil Company Limited. Based upon the closing market prices on the Toronto Stock Exchange at December 31, 1965 the value of the foregoing shares was \$18,221,583.

Note 2 INVESTMENTS IN AND ADVANCES TO WHOLLY-OWNED SUBSIDIARIES.

The financial statements include full provision for the operating results of the company's wholly-owned subsidiaries, Thio-Pet Chemicals Ltd. and Empire Management Limited from the date of their inception or acquisition.

Consolidated financial statements were not prepared because of the dissimilarity of the operations of the wholly-owned subsidiary companies and because of the general nature of the business of the parent company.

Investments and advances to wholly-owned subsidiaries consist of:

	Thio-Pet Chemicals Ltd.	Empire Management Limited	Total
Shares, at cost	\$ 100	\$ 88,345	\$ 88,445
Advances	1,377,691	190,623	1,568,314
	<u>1,377,791</u>	<u>278,968</u>	<u>1,656,759</u>
Income (Loss) from date of inception or acquisition	(101,971)	1,370	(100,601)
	<u>\$1,275,820</u>	<u>\$280,338</u>	<u>\$1,556,158</u>

During the year the Company acquired the outstanding shares and note payable of Empire Management Limited, for \$191,000 cash and 20,000 Class A shares of the Company's capital stock.

Note 3 OTHER ASSETS

The commission and other expenses incurred on the sale of preference shares, together with incorporation and organization expenses are being amortized over a five year period.

Note 4 CAPITAL STOCK

(a) Shares Issued During the Year.

As referred to in Note 2, the Company issued 20,000 Class A shares of its capital stock on the acquisition of Empire Management Limited. The consideration for these shares of \$85,000, as determined by the Directors, has been credited to capital stock.

(b) Dividends - Class A and Class B Shares.

The holders of Class A shares are entitled to cumulative dividends of 10 cents per share per annum payable on July 1. After payment of these dividends, the company may pay dividends up to 10 cents per share per annum to the Class B shareholders. Dividends in excess of the foregoing in any year, are payable equally on Class A and Class B shares.

(c) 5½% Cumulative Redeemable Convertible Preferred Shares.

The 5½% Cumulative Redeemable Convertible Preferred shares are convertible on or before December 29, 1972 into Class A shares of the company on the basis of four Class A shares for each preferred share. The preferred shares are redeemable at \$21 per share.

(d) Share Options.

Subsequent to December 31, 1965 the Company adopted an incentive share option plan for employees. Under the plan 150,000 Class B shares have been reserved for options to be granted.

Note 5 EXECUTIVE REMUNERATION

Directors' fees in the amount of \$8,400 have been charged against income for the year.

AUDITORS' REPORT

To the Shareholders
Cygnus Corporation Limited

We have examined the accompanying financial statements of Cygnus Corporation Limited for the year ended December 31, 1965 comprising the balance sheet as at that date and the statements of income and earned surplus for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the aforementioned financial statements present fairly the financial position of the company as at December 31, 1965 and the results of its operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

RIDDELL, STEAD, GRAHAM & HUTCHISON
Chartered Accountants

Calgary, Alberta
February 25, 1966

